U.S. Accused of Blocking Action on Nixon Supporters

3/20/72

By Philip Greer
Washington Post Staff Writer

NEW YORK, March 19—Life Magazine charged today that the Nixon administration "tampered with justice" in blocking legal action against C. Arnholt Smith, a multimillionaire political supporter from San Diego, and several asociates, including the former Democratic mayor of the city.

In an article in its latest issue, Life charged the administration:

- "Squelched" and investigation into an allegedly illegal contribution to Mr. Nixon's 1968 presidential campaign.
- "Shut off" a probe into the possibility that the contribution was part of a larger scheme to illegally channel "many thousands" of dollars to political candidates, principally Mr. Nixon, in 1968.
- Refused to allow an Internal Revenue Service agent — a key witness—to testify in a case against San Diego's former mayor, resulting in the acquittal of all but one of the defendants.
- Postponed a tax evasion indictment against another prominent San Diegan, a Smith associate, until just before the statute of limitations ran out, when an indictment was obtained after the personal intervention of J. Edgar Hoover.

Asked for comment, White House Press Secretary Ronald L. Ziegler said "We're not going to have any comment on a story of this sort."

According to Life, Smith is a former high school dropout and grocery store clerk, who, at 73, controlled the $746 million U.S. National Bank and Westgate-California Corp., a conglomerate with $215 million in real estate, hotels, insurance, airlines, fishing boats and other interest. He also has controlling interest in the San Diego Padres baseball team. He has been a "Loyal supporter" of Mr. Nixon throughout the President's political career.

See SMITH, A8, Col. 1

SMITH, From A1

In 1970, Life said, a federal grand jury was convened in San Diego to sift evidence that Barnes-Champ Advertising Agency had been used as a conduit for illegal political contributions by companies in the area. Frank A. Thornton, identified as a "top lieutenant" of Smith and chairman of the 1968 Nixon campaign in San Diego, was vice-president of Barnes-Champ.

Specifically, the grand jury was told that a $2,068 payment made to the agency by San Diego's Yellow Cab company for a "wage and hour survey" was actually a campaign contribution.

A subpoena was issued for Thornton, Life said, but it was never served. Instead, Harry Steward, U.S. Attorney for the Southern Disrtict of California—who was recommended for that job by Smith—told investigators that he would question Thornton himself. Steward first told the investigators that the payment was proper and the study had not yet been made, then said Thornton told him the payment was improper and would be returned. Thanks to Steward's intervention, the case was never pursued, Life said.

The Yellow Cab case led to wider investigation, according to the story, into other payments made to Barnes-Champ to hide political contributions. Many of the payments allegedly came from companies controlled by Smith, which then wrote them off as business expenses. Quoting from a report by IRS special agent David Stutz, Life said, "Smith would have these bills paid, knowing them to be false, and the money (would be) used in political campaigns."

Once again, Life said, Steward stopped the investigation and ordered Stutz to stay away from Barnes-Champ. An appeal by Stutz to the IRS regional office in Los Angeles brought no results.

At that point, Charles Pratt, president of Yellow Cab, told federal agents the details of the payment, explaining that it was made because Pratt could not afford a $2,000 personal contribution to the Nixon campaign. Thornton, who said he was getting information on the grand jury investigation from Steward — a violation of federal law — told Pratt that Steward would do his best to prevent Pratt from being indicted, Life said.

At that point, the article continues, the FBI began an investigation of Steward's activities. A report was filed with the Justice Department Criminal Division, which concluded that Steward had been "indiscreet", but that no action was warranted. In February, 1971, Deputy Attorney Gen. Richard Kleindienst, since nominated to be Attorney General, announced that he had evaluated the matter and "there has been no wrongdoing."

According to Life, Steward, Smith and Thornton all denied the charges.

The Yellow Cab investigation led, on Oct. 8, 1970 to the

C. ARNHOLT SMITH
. . . escaped legal action

indictment of Frank Curran, then mayor of San Diego, on charges of accepting bribes to help secure a "hefty" fair increase for the cab company. At the trial, Pratt testified he had given Curran four checks totalling $3,500 after the mayor's promise to help get the increase. Curran said he never saw the checks and didn't know they came from Pratt.

IRS agent Stutz was scheduled to be the government's key witness, according to Life, but in the middle of the trial the then IRS Commissioner, Randolph Thrower, ordered Stutz not to testify unless both Pratt and the cab company gave their permission to reveal confidential information. Pratt gave his approval, but the company did not and Stutz did not testify. On Jan. 6, 1971 Curran was acquitted and, according to Life, received a congratulatory telephone call from President Nixon.

In another case connected with the Curran trial, Life said, John Dean III, Nixon's counsel, refused a request for Stutz to testify. In that case, all but one defendant was acquitted.

According to Life, the IRS had gathered evidence showing that Yellow Cab had been paying public officials since 1971. Smith controlled a block of stock in the company from 1962 to 1967, when he sold it back to the company $100,000. The magazine also said that when it asked a former IRS official why Stutz was not allowed to testify against Curran, he answered, "Curran was too well connected."

In still another case, Life said, IRS agents were investigating a tax evasion case against John Alessio, a Smith associate who owns a legal bookmaking operation in Mexico and has interests in horse and dog tracks, real estate and other investments. The IRS, Life said, had evidence that Alessio had used income from the bookmaking operations, without declaring it as income, to improve various properties in the U.S. including the hotel del Coronado in San Diego Bay and the Kona Kai Club, where the $2,000-a-couple Nixon dinner took place.

Alessio told the IRS the money was a loan, although he could not produce any backup evidence. The case ultimately made its way through the district, regional and national levels of the IRS, was examined by the Justice Department's tax division and went back to U.S. Attorney Steward.

At that point, Life said, Smith went to Washington to talk to Mr. Nixon about Alessio. Smith denied he ever talked to the President, Life said, but Pratt of Yellow Cab said he met Smith on the plane to Washington and was told he was going to the White House to discuss the Alessio case. After Smith's trip, the case against Alessio came to a halt, Life said, dispute efforts by the press and the California attorney general to keep it alive.

In April, 1970 shortly before the statutes of limitations would have prevented the government from continuing the case, FBI agents urged Hoover to get it moving again. Hoover, Life said, had evidence that Smith and Alessio had conspired fraudulently to gain control of Del Mar Race Track in California and that they and other were "culpable in this conspiracy to defraud" California out of $11 million.

Eight days before the statute of limitations expired, Alessio, his son and three brothers were indicted for evading $929,000 in taxes. In another action, the government sued for $6.5 million in unpaid taxes and interest.

Before the trial, Life said, agent Stutz received a call from Jack Caulfield, an aide to presidential assistant John Ehrlichman, asking Stutz to come to the White House to discuss the case—but not to tell anyone at the IRS about it.

Stutz refused, Life said, unless the request went through channels.